



PREVENTATIVE MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC THAT RESULTED IN THE NATIONAL STATE OF DISASTER

1. PURPOSE

- 1.1 The purpose of this Circular when dealing with the COVID-19 pandemic is to:
- (a) provide for preventative measures as a result of COVID 19 emergencies and the need to be responsive and flexible, whilst ensuring value for money and minimising the risk of fraud, corruption, negligence, error, incapacity; and
 - (b) ensure that internal control systems of a municipality and municipal entity consider, amongst others—
 - (aa) the change in operating activities of the existing control environment;
 - (bb) revisiting risk assessment processes;
 - (cc) designing and/or amending control activities to address new or elevated risks;
 - (dd) identifying information required to support the effectiveness and efficiency of new or existing controls;
 - (ee) reassessing internal and external communication; and
 - (ff) identifying any additional internal control monitoring activities.

2. BACKGROUND

- 2.1 On 15 March 2020 the President announced the declaration of a national state of disaster following the World Health Organisation declaring the COVID-19 outbreak as a pandemic as well as measures that must be implemented in South Africa.
- 2.2 Since the declaration of the national state of disaster Regulations under the Disaster Management Act, 2002, regarding steps to prevent an escalation of the disaster or to alleviate, contain and minimise the effects of the Disaster have been issued from time to time.
- 2.3 Accounting officers are urged to revisit their control environment in a response to COVID-19 to avoid any disruptions this may have on financial management operations in municipalities and municipal entities.

3. CONTROL ENVIRONMENT DURING THE NATIONAL STATE OF DISASTER

- 3.1 Accounting officers of municipalities and municipal entities are required by sections 62(1)(c) and 95(c) of the Municipal Finance Management Act, 2003 ("the MFMA") to establish a system of financial management, internal control, risk management and internal audit under the direction of the audit committee and ensure that such systems are transparent, effective and efficient.
- 3.2 Accounting officers must consider new risks due to the national state of disaster on their control environment such as-
- (a) remote working arrangements that may result in significant changes to the manner in which internal controls are designed and executed (i.e. a need to rely on electronic submissions rather than manual submissions of information);
 - (b) remote working arrangements may result in changes to the delegations and/or levels of authority or the establishment of new reporting lines;
 - (c) lack of or limited education, training sessions or supervision may lead to the risk of incorrectly executing new and/or existing internal controls or applying internal policies;
 - (d) contingency plans may not be in place for key personnel who execute internal controls;
 - (e) failure to timely assess and subsequently address the impact of changes caused by external environment factors;
 - (f) failure to involve appropriate levels of leadership and stakeholders in the decision-making process could lead to inappropriate or rushed changes in processes and controls;
 - (g) increase in possible risk of error due to remote working arrangements;
 - (h) financial hardships of officials may result in an increase in risk of fraud; and
 - (i) non-compliance with internal policies and legislation.
- 3.3 Accounting officers must consider the measures below to assist in addressing possible emerging risks that may prompt for a change in their current control environment including information technology risks. These measures include, but are not limited to:
- (a) establishment of team of officials tasked and empowered to manage operational risks during the national state of disaster;
 - (b) identification of operational-critical processes (i.e. disbursements, financial transaction processing system, etc.) to ensure that processes continue to operate unimpeded;
 - (c) development of responsibilities for the established back-up officials for critical processes including software applications to ensure that access rights are provided to the back-up officials;
 - (d) consideration of new or enhanced general information technology (IT) controls to be implemented or existing general IT controls to support the new automated control activities (if such automated controls are developed and implemented);
 - (e) consideration of additional IT controls on confidential data transmitted to or from remote locations (e.g. residences of officials) to ensure protection of such data;

- (f) use of personal or public unsecured Wi-Fi networks and possible increase on the dependency of cyber security controls including access security, system change control, and data centre and/or network operations;
 - (g) regular testing of software and communications systems for remote operations;
 - (h) protection of systematically important documents and information on a shared drive to ensure its availability to authorised officials;
 - (i) consideration of developing and implementing step-by-step guideline for business-critical operations; and
 - (j) increase monitoring and enhancement of network security, backups and power supplies on remote access.
- 3.4 Accounting officers are to ensure that risk assessment is conducted regularly to identify emerging risks. The revised risk profile must be used to direct internal audit effort and priorities.
- 3.5 The risk management strategy referred to in paragraph 3.4 must be clearly communicated to all officials to ensure that the strategy is institutionalised.
- 3.6 Accounting officers must consider the effects of national state of disaster on fraud risk and whether new or augmented controls should be designed and implemented to address such fraud risks.
- 3.7 Accounting officers must consider reviewing previous risk assessments (e.g. enterprise risk assessments, fraud risk assessments, information technology risk assessments, etc.), re-assess risk rankings and modify mitigation plans. Any information resulting from this process should also be recorded in related risk registers.
- 3.8 Mitigation plans referred to in paragraph 3.7 must be assessed for its effectiveness against the business continuity plan and record any remedial action, where necessary.
- 3.9 Identification of governance documentation to be amended and prioritise such changes to best address operational needs, such as introducing the use of electronic/digital signatures.
- 3.10 Amendments of delegations of authority and segregation of duties in response to the national state of disaster.

4. DELEGATIONS OF AUTHORITY

- 4.1 To accord with paragraph 3.10, delegations of authority and the responsibility of expenditure management control must ensure that internal controls are in place to ascertain that expenditure is authorised, valid, complete, accurate and correctly classified.

- 4.2 Accounting officers are also reminded of the key principles in MFMA Circular 73 on Systems of Delegations and must also now consider developing delegations of authority during the COVID-19 pandemic taking into account the qualitative and quantitative materiality, risk profile to ensure that authority is delegated to the right official within set limitations and conditions as set out in sections 79, 82 and 106 of the MFMA.
- 4.3 Accounting officers may issue delegations of authority that are specific in addressing the processes to be followed during the national state of disaster as it relates to funding, procurement and expenditure control management and other governance processes.
- 4.4 The MFMA require every official to ensure that the system of financial management and internal controls established for the municipality and municipal entity are carried out within their area of responsibility.

5. FINANCIAL MANAGEMENT

Expenditure Control Measures

- 5.1 If delegations of authority have been amended to address the national state of disaster, it must be ensured that the commitment of funds and expenditure spending is approved by a properly delegated/authorised official.
- 5.2 Accounting officers must ensure that strict control on handling of invoices is maintained and where necessary improved to guard against the risk of duplicate payment of invoices that may arise specially where manual checks and submission of supporting documentation for payment is not possible.
- 5.3 Due to the national state of disaster, emergency response expenditure is permissible under applicable procurement prescripts. However accounting officers must intensify checks and balances in this area and ensure monitoring thereof as this may increase the risk of unauthorised, irregular or fruitless and wasteful expenditure, as the case may be.

6. BUDGET, REVENUE AND CASHFLOW MANAGEMENT

- 6.1 Accounting officers must consider streamlining the finance management processes and controls temporarily to register all budget stages, commitments, payments and accounting of emergency response expenditure.
- 6.2 Accounting officers must ensure that cash flow is accurately forecasted during the national state of disaster to optimise central cash management responsibilities.
- 6.3 Prepayments for goods and services (i.e. payment in advance of the receipt of goods and/or services) must be avoided, unless required by the contractual arrangement with the supplier. The risk of requests made by suppliers to institutions to effect advance

payments prior to the delivery of goods and/or services and acceding to such requests, may increase and such must be addressed on a case by case through legal advice.

- 6.4 Municipalities and Municipal Entities must—
- (a) regularly review the pace of expenditure in relation to forecasts and operational plans to identify any opportunities to slow down spending;
 - (b) re-prioritise the allocation of resources to unaffected programmes, projects to identify measures of cost savings measures;
 - (c) ensure proper cash flows management; and
 - (d) review existing insurance policies and contracts (where appropriate) to identify any losses or damage incurred as a result of the national state of disaster and recovery through existing terms or whether an adjustment of cover may be required to maximise protection.
- 6.5 The review referred to in paragraph 6.4(d) must be risk based and accord with section 50 of the MFMA that deals with indemnity or security and future financial commitment as it relates to insurance.

7. PROCUREMENT CONTROL MEASURES

- 7.1 During the national state of disaster accounting officers must consider the impact any supply chain disruptions may have on finance management operations and develop control measures to address such.
- 7.2 When accounting officers consider invoking provisions in contracts related to “force majeure” for suppliers, legal advice must be sought on a case-by-case basis and accounting officers must guard against the risk of possible fruitless and wasteful expenditure due to payments made for services not rendered or goods not supplied.
- 7.3 Internal controls within the supply chain management (SCM) environment must be reviewed in terms of administrative controls and delegations to ensure required authorisations are done by relevant officials.
- 7.4 Internal control measures must be established to consider and approve any COVID-19 related procurement in the municipality or municipal entity. Prior to generating an order in relation to COVID-19 related procurement, the document must be referred to any other relevant function within the municipality or municipal entity to conduct checks to prevent any possible irregular expenditure.
- 7.5 Emergency requirements may be addressed through the emergency procurement provisions as stipulated in SCM Regulations and MFMA Circulars – Preventing and Combatting Abuse in the SCM System and reiterated further in the National Treasury Circulars.
- 7.6 MFMA Circulars on Preventing and Combating Abuse in the Supply Chain Management System states that accounting officers must only deviate from inviting competitive bids in cases of emergency and sole supplier status. These deviations do not require the approval of the relevant treasuries. It is understood that emergency procurement may occur when there is a serious and unexpected situation that poses

an immediate risk to health, life, property or environment which calls on a municipality or municipal entity to action and there is insufficient time to invite competitive bids.

- 7.7 The emergency procurement provisions provide for accounting officers to procure the required goods or services by other means, such as price quotations or negotiations, in terms of SCM Regulations. The reasons must be recorded and approved by the accounting officer or his/her delegate.
- 7.8 Section 114 of the MFMA and council policies require accounting officers to report within 10 working days to the relevant treasury and the Auditor-General all cases where goods and services were procured from bidders other than the one recommended. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process.
- 7.9 The principles of fairness, equity, transparency, competitiveness and cost-effectiveness must be maintained. Emergency procurement must be limited to goods, services and works that addresses the programme of preventing the spread of the COVID-19 virus.

8. INSTITUTIONAL OVERSIGHT

- 8.1 Accounting officers must monitor existing control activities to assess the need to modify and intensify IT general controls to accommodate for remote working environment (i.e. increased use of institutional mobile devices and laptops outside of the office).
- 8.2 Accounting officers may implement specific monitoring activities over newly designed or implemented controls to ensure that such controls achieve the desired outcomes. The nature and extent of these specific monitoring activities must correspond with the risk associated with the new controls.
- 8.3 Sections 62(1)(c)(ii), 95(c)(ii) and 165 of the MFMA require accounting officers, to establish a system of internal audit under the direction of the audit committee.
- 8.4 Governance structures established in municipalities and municipal entities must independently decide on the nature, scope and approach to COVID-19 and keep abreast of any potential risk areas and any modification to the finance management processes.
- 8.5 Accounting officers must ensure that audit of emergency transactions is made a priority to provide assurance on the value for money spent during emergency operations and to identify actions to strengthen controls in emergency transactions.
- 8.6 Accounting officers must identify the extent of operational disruption and whether additional oversight procedures need to be established during this period of disruption.
- 8.7 To maintain oversight, accounting officers must commit to integrity and ethical values along with existing consequence management policies and/or frameworks.

9. INFORMATION AND COMMUNICATION

- 9.1 The national state of emergency has resulted in additional information requirements to operate controls intended to address new or elevated risks. There may be a possible reduction in oversight and communication by municipalities and municipal entities due to remote working arrangements.
- 9.2 Accounting officer must maintain clear and regular communication with officials on matters related to any changes in the financial management system during the national state of disaster.

10. REPORTING REQUIREMENT

- 10.1 Due consideration must be given to changes in the timing and required disclosure of financial information in monthly, quarterly, interim and annual financial statements.
- 10.2 Accounting officers may introduce additional controls activities to be established or enhanced to ensure that financial information is made available and not delayed.

11. APPLICABILITY

- 11.1 This Circular applies to all municipalities and municipal entities.

12. EFFECTIVE DATE

- 12.1 This Circular takes effect from 1 June 2020 and remains in effect until the national state of disaster declared on 15 March 2020 lapses or is terminated or until this Circular is withdrawn.

13. AUTHORITY FOR THIS INSTRUCTION AND EFFECTIVE DATE

- 13.1 This Circular is issued in terms of section 168 of the Municipal Finance Management Act, 2003.

14. DISSEMINATION OF INFORMATION CONTAINED IN INSTRUCTION

- 14.1 Accounting officers of municipalities and municipal entities are requested to bring the contents of this Circular to the attention of chief financial officers, supply chain management officials, Internal Auditors and Audit Committees.

15. CONTACT INFORMATION

Any queries on the Preventative measures should be directed to the respective National or Provincial Treasury official or MFMA helpdesk, email mfma@treasury.gov.za

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